

Message Text

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22-11

ACTION SS-14

INFO OCT-01 ISO-00 EB-03 EUR-08 SP-02 TRSE-00 SSO-00 NSC-05

NSCE-00 FRB-01 CIAE-00 ONY-00 /034 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8620

INFO AMEMBASSY BRUSSELS

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E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, DECEMBER 10

168; (B) LONDON 19864 #

1. THE STAGE IS NOW SET FOR THE ANNOUNCEMENT TF THE ECONOMIC PACKAGE THAT HAS BEEN OCCUPYING THE ATTENTION OF THE CABINET FOR ABOUT 3 WEEKS. THE CABINET CON- CLUED ITS EIGHTH AND FINAL MEETING ON THIS SUBJECT LAST NIGHT. DETAILS WILL BE PRESENTED TO THE COMMONS TN DECEMBER 15 BY THE CHANCELLOR OF THE EXCHEQUER.

MEA WHILE PRESS SPECULATION CONTINUES OVER POSSIBLE ELEMENTS OF THE PACKAGE. SEVERAL PAPERS REPORT THAT THE SALE OF 500 MILLION POUNDS OF H.H. GOVERNMENT HELD BRITISH PETROLEUM STOCK (ABOUT A FIFTH OF THE GOVERN- MENT'S STAKE IN BP) IS LIKELY TO GO FORWARD, DESPITE THE OPPOSITION OF MANY LABOR MPS (SOME 75 HAVE ALREADY SIGNED A COMMONS MOTION DEPLORING ANY SUCH MOVE). OPPOSITION TO THE SALE MAY HAVE BEEN OVERCOME BY H.M. GOVERNMENT'S APPARENT INTENTION TO INCREASE ITS HOLDINGS OF BP FROM 48 TO 51 PERCENT, ASSURANCES THAT BURMAH OIL'S LEGAL CHALLENGE TO PREVENT H.H. GOVERNMENT FROM

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SELLING THE 20 PERCENT OF BP, SHARES ACQUIRED FROM

BURMAH WILL FAIL, AND THE PREFERENCE AMONG THE CABINET
TO SUBSTITUTE PROCEEDS FROM THE BP SALE FOR DEEPER
SPENDING CUTS.

ON THE IMF FRONT, BOTH THE TIMES AND GUARDIAN RE-
PORT THAT THE GROUP OF TEN WILL MEET IN PARIS PROBABLY
DECEMBER 22 TO MAKE THE 3.9 BILLION DOLLARS REQUESTED
BY THE UK AVAILABLE TO THE IMF TO LEND. SINCE THE IMF
IS CURRENTLY SHORT OF HARD CURRENCY, THE MONEY IS TO
BE SUPPLIED UNDER THE GENERAL AGREEMENT TO BORROW, WITH
THE GUARDIAN REPORTING THAT THE U.S. WILL SUPPLY 1.2
BILLION DOLLARS, WEST GERMANY, 1.0 BILLION, JAPAN,
0.725 BILLION, WITH FRANCE, NETHERLANDS, BELGIUM AND
SWEDEN ALSO CONTRIBUTING.

2. SIR DEREK EZRA, CHAIRMAN, NATIONAL COAL BOARD,
CALLED ON THE NATIONAL UNION OF MINERS YESTERDAY (DEC 9)
TO RETURN TO THE NEGOTIATING TABLE TO DISCUSS THEIR
CLAIM FOR EARLY RETIREMENT. EZRA'S APPEAL CAME AS THE
MINERS WERE COMPLETING THEIR PIT HEAD BALLOTING ON
WHETHER TO GIVE THE NUM EXECUTIVE AUTHORITY TO TAKE
INDUSTRIAL ACTION, INCLUDING A STRIKE IF NECESSARY, IN
SUPPORT OF THE UNION'S CLAIM. THE MINERS VOTE, TO BE
ANNOUNCED TOWARDS THE MIDDLE OF NEXT WEEK, IS EXPECTED
TO BE SUBSTANTIALLY IN FAVOR OF SUCH AUTHORIZATION.
SIR DEREK'S CALL ON THE MINERS TO REOPEN DISCUSSIONS
SEEMS TO INDICATE THAT THE NCB IS PREPARED TO IMPROVE
ITS OFFER ON EARLY RETIREMENT. CHRISTIAN TYLER, A

NOTE BY OC/T: # REFERENCES AS RECEIVED.

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INFO OCT-01 ISO-00 EB-03 EUR-08 SP-02 TRSE-00 SSO-00 NSC-05

NSCE-00 FRB-01 CIAE-00 ONY-00 /034 W

----- 075813

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LABOR WRITER FOR THE "FINANCIAL TIMES" (DECEMBER 10) BELIEVES THAT AN OVERWHELMING VOTE IN THE NEIGHBORHOOD PERHAPS OF 70 PERCENT COULD STRENGTHEN THE HAND OF EXTREME LEFT-WINGERS ON THE NUM EXECUTIVE TO HOLD OUT FOR MOST OF THE MINERS' CLAIM - AND IN THE PROCESS HELP DESTROY THE SOCIAL CONTRACT BETWEEN THE TUC AND THE GOVERNMENT WHICH THEY HAVE ALWAYS OPPOSED. WE STILL BELIEVE, HOWEVER, THAT A NEGOTIATED COMPROMISE IS POSSIBLE.

3. CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR): FIGURES FOR NOVEMBER SHOW THAT THE CGBR CONTINUES TO FALL BELOW ORIGINAL ESTIMATES. THE SHORT-FALL IS CAUSED BY REVENUES RUNNING 2 PERCENT ABOVE ORIGINAL ESTIMATES, EXPENDITURES 2 PERCENT BELOW AND HIGHER LEVELS OF BORROWING ABROAD (NOT INCLUDED IN THE CGBR) BY NATIONALIZED INDUSTRIES AND LOCAL AUTHORITIES. NEVERTHELESS, THE PUBLIC SECTOR BORROWING REQUIREMENT IS STILL LIKELY TO BE ABOUT 11 BILLION POUNDS FOR FY 76, WHILE THE CGBR MAY BE OF THE ORDER OF 7.0 BILLION.

4. FOREIGN EXCHANGE AND FINANCE: THE GILT MARKET WAS VERY QUIET THURSDAY IN ANTICIPATION OF NEXT WEEK'S ECONOMIC PACKAGE.

THE FT INDEX OF 30 INDUSTRIALS FELL 5.6 TO 319.4 ON
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THE POSSIBILITY OF A LARGE MAJORITY AMONG THE MINERS IN FAVOR OF INDUSTRIAL ACTION IF THEIR DEMANDS ON EARLY RETIREMENT ARE NOT MET.

STERLING DECLINED SLIGHTLY THURSDAY TO \$1.6710 FROM THE PREVIOUS DAY'S CLOSE OF \$1.6715. THO TRADE-WEIGHTED DEPRECIATION WAS UNCHANGED AT 44.7 PERCENT. THE POUND OPENED TODAY AT \$1.6700.

ARMSTRONG

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, ECONOMIC CONDITIONS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 DEC 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON19945
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760456-0676
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761255/aaaabuyp.tel
Line Count: 162
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: LIMDIS, ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: LIMDIS
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: LIMDIS; LIMDIS, ONLY
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 06 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 APR 2004 by ShawDG>; APPROVED <06 AUG 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SITUATION REPORT, DECEMBER 10 168; (B) LONDON 19864 #
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006